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**WORKING PAPER NO. 26**  
**Consumer Perceptions of Credit Bureaus**

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## CONSUMER PERCEPTIONS OF CREDIT BUREAUS

William C. Dunkelberg  
Robert W. Johnson  
Robin DeMagistris

### Abstract

Regulation has often been instituted because of pressure from misinformed consumers. This paper presents a sample of consumers' perceptions of credit bureaus and suggests how consumer misperceptions could impact the regulation of credit. A survey of California bankcard users indicated that the majority of these credit card users did not have an accurate concept of the function of the credit bureau. Over 50 percent of those surveyed felt, inaccurately, that credit bureaus provide consumer credit ratings while only 37 percent correctly identified credit bureaus as record-keeping agencies. An examination of the demographic characteristics of the bankcard users suggested that no strong relationships exist between consumer awareness of the function of credit bureaus and occupation, income or education. Further, neither the frequency of use nor the number of credit cards held contributed significantly to consumers' knowledge of the credit bureau.

A comparison of the perceptions of regular and problem bankcard account holders indicated that those who had problems making payments were slightly more informed about the record-keeping function of credit bureaus than regular bankcard account holders. Thus, it appears from this sample of bankcard holders that consumers' knowledge of credit bureaus is limited.

There seemed to be no consistent relationship between demographic characteristics of bankcard holders and the types of information survey participants felt credit bureaus should maintain. Most credit cardholders felt that records of promptness in paying bills was appropriate. Slightly less of the problem account sample felt this way. Most of those surveyed were willing to allow credit grantors to check credit bureau records. Again, fewer problem account holders were willing to allow credit-grantors access to this information. Reasons for unwillingness to allow access to credit bureau records were not given in most cases, but, in general, consumers were reluctant to allow access because they felt credit bureau records were unreliable or out of date.

It is evident from study of the responses of bankcard holders in the survey that many consumers do not understand the role of the credit bureau as an information intermediary in the credit-granting process. Incorrect perceptions about credit bureaus could lead to pressure for restriction of information available to credit-grantors. Such restriction would most likely result in contraction of available credit. Thus, legislators must carefully assess the costs of limiting the information available to credit-grantors relative to the benefits in terms of consumer protection.

## CONSUMER PERCEPTIONS OF CREDIT BUREAUS

Of the many causes of regulatory confusion and failure, consumer ignorance and misperception likely rank high on the list. In some cases, a lack of information generates dissatisfaction and complaints that are unwarranted in terms of institutional performance. Yet, such complaints are an important part of the information base used to promulgate regulation. In other cases, this lack of information will prevent complaints from being communicated to regulatory bodies, again biasing the regulatory process. Often, the frequency of complaints is not examined relative to the associated volume of successful transactions, and infrequent, dramatic failures draw disproportionate attention. The area of privacy provides a good example of both of these types of problems. In some instances, complaints result from the use of information which, in terms of a common law basis of acceptability, was probably legitimate. In other cases, information about consumers is used without their awareness or consideration of the effect such use might have on them. Thus, consumers might complain that a retailer solicits additional business from them using the information from their credit card accounts at particular stores while being unaware that several contacts from other solicitors resulted from the purchase of information from a magazine subscription list.

Many institutions maintain records about individuals and their financial transactions. One that has received particular attention in recent times is the credit bureau. Credit bureaus maintain files on consumers who use credit, and provide this information to credit-grantors who are considering new applications for credit or increases in existing

credit lines. Credit bureaus perform an important intermediary role by consolidating credit account use information from various credit-grantors and then transmitting the data to potential credit-grantors. Thus, the credit bureau, as an intermediary, improves the flow of information to credit-grantors, resulting in better credit decisions [3].

This paper reports the perceptions of bank credit card users regarding the role of the credit bureau, and demonstrates how their opinion differs from actual performance of the credit bureau. This study uses the Credit Center's California Bankcard Study data base, a sample of active bank credit card accounts taken from the files of California banks in 1977. The participating banks accounted for roughly 90 percent of the credit card activity generated in the state. The data set also included the construction of twelve-month account histories for each selected bankcard account, and a special study of twenty-five problem accounts from each bank, accompanied by a reconstruction of the collection activity for each of these accounts. A problem account was defined as an account that had required any effort to collect delinquent balances beyond normal billing during the twelve-month period studied. Further, each of these two classes of accounts was sent a questionnaire requesting economic and demographic information. The questions related to perceptions of credit bureaus are included in Appendix A.

This study is composed of two sections: consumers' perceptions of credit bureaus and consumers' views about the information maintained by credit bureaus. The first section investigates the relationship between

consumer characteristics and credit use patterns and the accuracy of perceptions about credit bureaus. The second section discusses consumers' knowledge of the content of credit bureau records and consumer opinions of what information should be contained in these records.

## I. Consumers' Perceptions of Credit Bureaus

### A. General Perceptions

The distribution of survey respondents' perceptions of credit bureaus is shown in Table 1. Clearly, the majority of people did not have an accurate idea of what a credit bureau does. More than 50 percent thought a credit bureau was responsible for providing a consumer credit rating. Although some credit bureaus do employ numerical systems to characterize accounts, the basic function of a credit bureau is to maintain and disseminate information about past consumer credit use. Some credit bureaus have instituted systems to summarize or classify credit histories. Points are assigned to accounts based on the information in the history. The statistics do not rate the account, only describe it. Any weighting, numerical or otherwise, is made by the creditor. Most often, such summary statistics are used to pre-screen accounts for credit solicitation programs and are not commonly reported to credit grantors.

Only 37 percent of respondents correctly identified a credit bureau as a record-keeping agency. Interestingly, few consumers confused the function of the credit bureau and the collection agency. Only three percent of the sample thought a credit bureau was a collection agency. This small percentage is surprising since many credit bureaus operate collection agencies in addition to maintaining credit records. These responses indicate how little people actually know about the function

of the credit bureau and can perhaps explain why criticisms of credit bureaus and the credit-granting process have arisen.

Table 1: Distribution of Perceptions about Credit Bureaus

| <u>Perceptions</u>       | <u>Number of<br/>accounts</u> | <u>Percent<br/>of sample</u> |
|--------------------------|-------------------------------|------------------------------|
| a) Government agency     | 23                            | 3%                           |
| b) Collection agency     | 20                            | 3                            |
| c) Record keeping agency | 275                           | 37                           |
| d) Credit rating agency  | 404                           | 54                           |
| c and d                  | 7                             | 1                            |
| b and d                  | 1                             | *                            |
| No answer                | 18                            | 2                            |
| All                      | 748                           | 100%                         |

\* Less than .5%

Source: Credit Research Center, Purdue University. California Bank Card Study.

#### B. General Perceptions According to Demographic Characteristics of Cardholders

No single demographic segment of the sample population seemed more knowledgeable than any other about credit bureaus, as demonstrated in Table 2. Among educational groups, consumers with the least schooling identified the function of credit bureaus correctly most often, but also supplied no answer most often of all groups. Fifty-seven percent of

Table 2: Distribution of Perceptions About Credit Bureaus by Selected Demographic Characteristics

| Education         | N   | Percent of Sample | a)Government agency | b)Collection agency | c)Record keeping agency | d)Credit rating agency | c&d | b&d | No answer |
|-------------------|-----|-------------------|---------------------|---------------------|-------------------------|------------------------|-----|-----|-----------|
| Grade school      | 15  | 2%                | 7%                  | *                   | 47%                     | 33%                    | *   | *   | 13%       |
| Some high school  | 40  | 5                 | 10                  | 8                   | 37                      | 40                     | *   | *   | 5         |
| High school       | 138 | 18                | 3                   | 4                   | 38                      | 50                     | 2   | *   | 3         |
| Some college      | 235 | 31                | 2                   | 4                   | 34                      | 58                     | *   | *   | 2         |
| Undergrad degree  | 101 | 14                | 2                   | 1                   | 45                      | 52                     | *   | *   | 1         |
| Postgrad study    | 84  | 11                | 2                   | 1                   | 32                      | 57                     | 5   | *   | 3         |
| Advanced degree   | 130 | 17                | 3                   | 1                   | 36                      | 57                     | *   | *   | 3         |
| No answer         | 5   | 1                 | 20                  | *                   | 20                      | 60                     | *   | *   | *         |
| All               | 748 | 100%              | 3%                  | 3%                  | 37%                     | 54%                    | 1%  | *   | 2%        |
| <u>Income</u>     |     |                   |                     |                     |                         |                        |     |     |           |
| Under \$5000      | 17  | 2%                | *                   | 6%                  | 12%                     | 64%                    | 6%  | *   | 12%       |
| \$5001-7500       | 14  | 2                 | 14                  | *                   | 22                      | 43                     | *   | *   | 21        |
| \$7501-10,000     | 38  | 5                 | 5                   | 5                   | 32                      | 55                     | *   | *   | 3         |
| \$10,001-15,000   | 108 | 14                | 5                   | 3                   | 30                      | 59                     | *   | *   | 3         |
| \$15,001-20,000   | 127 | 17                | 2                   | 5                   | 46                      | 46                     | 1   | *   | *         |
| \$20,001-25,000   | 126 | 17                | 1                   | 2                   | 44                      | 50                     | 2   | *   | 1         |
| \$25,001-30,000   | 109 | 15                | 3                   | *                   | 30                      | 65                     | 1   | 1   | *         |
| \$30,001-40,000   | 96  | 13                | 4                   | 2                   | 40                      | 51                     | 1   | *   | 2         |
| \$40,001 or more  | 77  | 10                | 3                   | 3                   | 42                      | 49                     | *   | *   | 3         |
| No answer         | 36  | 5                 | 3                   | 3                   | 22                      | 58                     | 3   | *   | 11        |
| All               | 748 | 100%              | 3%                  | 3%                  | 37%                     | 54%                    | 1%  | *   | 2%        |
| <u>Occupation</u> |     |                   |                     |                     |                         |                        |     |     |           |
| Professional      | 106 | 14%               | 4%                  | 1%                  | 37%                     | 54%                    | 2%  | *   | 2%        |
| Technical         | 42  | 6                 | 2                   | *                   | 38                      | 55                     | 2   | *   | 3         |
| Super-Mgr.        | 176 | 23                | 2                   | 2                   | 40                      | 55                     | *   | *   | 1         |
| Clerk             | 131 | 17                | 3                   | 3                   | 41                      | 50                     | *   | *   | 3         |
| Craftsman         | 89  | 12                | 1                   | 1                   | 42                      | 49                     | 2   | 1   | 4         |
| Service           | 56  | 8                 | *                   | 3                   | 34                      | 63                     | *   | *   | *         |
| Unskilled         | 44  | 6                 | 5                   | 9                   | 27                      | 54                     | *   | *   | 5         |
| Student           | 85  | 11                | 6                   | 8                   | 26                      | 57                     | 2   | *   | 4         |
| No Answer         | 19  | 3                 | 11                  | *                   | 37                      | 47                     | *   | *   | 5         |
| All               | 748 | 100%              | 3%                  | 3%                  | 37%                     | 54%                    | 1%  | *   | 2%        |

\*less than .5%

Source: Credit Research Center, Purdue University. California Bankcard Study.

respondents who had completed post graduate study and advanced degrees thought credit bureaus were credit rating agencies. The middle income groups, consumers earning \$15,001 to \$25,000 annually, responded correctly most frequently. About 45 percent of this group gave the proper definition of credit bureaus. It is evident that a large proportion of the consumers surveyed in all socio-economic classifications have inaccurate knowledge of credit bureau function. These consumers represented a rather select segment of the population since they all had bank credit cards and had used credit extensively. It is likely that awareness of credit bureaus is even more limited among less frequent users of credit.

Among bankcard users, frequency of credit use showed no significant relationship to awareness of credit bureau function. One measure of the use of credit is the number of times per month consumers' use all their credit cards: retail, gasoline, travel and entertainment cards as well as bankcards. Table 3 shows the distribution of perceptions about credit bureaus by the number of times California bankcard holders used all their credit cards per month. Curiously, those using credit cards less than six times per month chose the correct description of a credit bureau slightly, but not significantly, more frequently than those who used their credit cards more than 20 times per month. Forty-eight percent of the respondents using credit cards 15 to 19 times per month identified the function of credit bureaus correctly. This percentage is well above the sample average of 37 percent correct response, but these respondents represent only five percent of the total sample.

Table 3: Distribution of Perceptions About Credit Bureaus by Credit Card<sup>a/</sup> Use Per Month

| Credit Card<br>Use  | N   | Percent<br>or<br>Sample | (a)<br>Government<br>agency | (b)<br>Collection<br>agency | (c)<br>Record<br>Keeping<br>agency | (d)<br>Credit<br>rating<br>agency | c<br>&<br>d | b<br>&<br>d | No<br>Answer |
|---------------------|-----|-------------------------|-----------------------------|-----------------------------|------------------------------------|-----------------------------------|-------------|-------------|--------------|
| Under 6 times       | 392 | 52%                     | 3%                          | 3%                          | 39%                                | 52%                               | 1%          | *           | 2%           |
| 6-9 times           | 149 | 20                      | 5                           | 2                           | 33                                 | 56                                | *           | 1           | 3            |
| 10-14 times         | 107 | 14                      | 2                           | 3                           | 32                                 | 59                                | 2           | *           | 2            |
| 15-19 times         | 39  | 5                       | *                           | *                           | 48                                 | 46                                | 3           | *           | 3            |
| 20 or more<br>times | 55  | 8                       | 2                           | 2                           | 32                                 | 60                                | 2           | *           | 2            |
| No Answer           | 6   | 1                       | *                           | *                           | 67                                 | 33                                | *           | *           | *            |
| All                 | 748 | 100%                    | 3%                          | 3%                          | 37%                                | 54%                               | 1%          | *           | 2%           |

<sup>a/</sup> Includes all types of credit cards.

\*less than .5%

Source: Credit Research Center, Purdue University. California Bank Card Study.

A second measure of credit use is the total number of credit cards held by consumers. As the number of credit accounts increases, the number of credit-grantors likely to have checked the consumer's credit bureau record increases. As a result, consumers with more credit cards may be more aware of the interactions between credit bureau and creditor and more accurately identify the role of the credit bureau than consumers who have fewer credit cards. The distribution of perceptions about credit bureaus by total number of credit cards held is shown in Table 4. Although consumers having 15 or more credit cards correctly identified the credit bureau as a record keeping agency slightly more frequently than consumers having only one to four credit cards, there appears to be no consistent relationship between knowledge about credit bureaus and the number of credit cards owned. Apparently, credit use patterns do not necessarily contribute to consumer understanding of the function of credit reporting agencies. Much of the interaction between credit-grantors and credit bureaus is unknown to the credit card users.

#### C. Perceptions of Problem Account Holders

One group of consumers who are likely to be more concerned with the function of credit bureaus are those who have become problems to creditors, since credit bureaus keep records of credit problems such as past bankruptcies and delinquency of bill payments. In the study of California bankcard holders, a sample of problem bank credit card accounts was collected and survey questionnaires were administered to the holders of these accounts. Table 5 shows the distribution of the perceptions about credit bureaus for these consumers. Comparison of these figures with those for regular account holders shows that a higher proportion of the consumers who had

Table 4: Distribution of Perceptions About Credit Bureaus by Total Number of Credit Cards<sup>a/</sup> Held

| Total Number<br>of credit<br>cards | N   | Percent | (a)<br>Government<br>agency | (b)<br>Collection<br>agency | (c)<br>Record<br>Keeping<br>agency | (d)<br>Credit<br>rating<br>agency | c<br>&<br>d | b<br>&<br>d | NO<br>Answer |
|------------------------------------|-----|---------|-----------------------------|-----------------------------|------------------------------------|-----------------------------------|-------------|-------------|--------------|
| 1-4 cards <sup>b/</sup>            | 145 | 19%     | 3%                          | 3%                          | 36%                                | 54%                               | 1%          | *           | 3%           |
| 5-9 cards                          | 311 | 42      | 4                           | 3                           | 38                                 | 52                                | *           | *           | 3            |
| 10-14 cards                        | 222 | 30      | 3                           | 3                           | 34                                 | 57                                | 2           | *           | 1            |
| 15 or more<br>cards                | 70  | 9       | 3                           | *                           | 45                                 | 50                                | 1           | *           | 1            |
| All                                | 748 | 100%    | 3%                          | 3%                          | 37%                                | 54%                               | 1%          | *           | 2%           |

<sup>a/</sup> Includes all types of credit cards.

<sup>b/</sup> Everyone surveyed had at least on credit card.

\*less than .5%

Source: Credit Research Center, Purdue University. California Bank Card Study.

Table 5: Distribution of Perceptions About Credit Bureaus: Comparison of Responses Made by Consumers with Regular and Problem Accounts

| Perceptions               | Number of Accounts             |                  | Percent of Sample              |                  |
|---------------------------|--------------------------------|------------------|--------------------------------|------------------|
|                           | Regular accounts <sup>a/</sup> | Problem accounts | Regular accounts <sup>a/</sup> | Problem Accounts |
| a) Government agency      | 23                             | 2                | 3                              | 2                |
| b) Collection agency      | 20                             | 5                | 3                              | 5                |
| c) Record keeping agency  | 275                            | 50               | 37                             | 44               |
| d) Consumer rating agency | 404                            | 54               | 54                             | 48               |
| c and d                   | 7                              | 0                | 1                              | *                |
| b and d                   | 1                              | 0                | *                              | *                |
| No answer                 | 18                             | 1                | 2                              | 1                |
| All                       | 748                            | 112              | 100%                           | 100%             |

<sup>a/</sup> From Table 1.

\* Less than .5%

Source: Credit Research Center, Purdue University. California Bankcard Study.

problems identified credit bureaus as record keeping agencies (44% as opposed to 37% of the regular sample). Slightly more people from the problem account sample than the general sample thought credit bureaus were collection agencies. Again most of the respondents in this second sample did not know what the function of a credit bureau was. This suggests that people who have reason to worry about their credit records are better informed about credit bureaus than credit card users in general, although neither group is very knowledgeable on the subject.

The demographic characteristics of the bankcard-holders with problem accounts are presented in Table 6. Knowledge of credit bureau function increased, in general, with education, with the exception of those with advanced degrees. Whereas 36 percent of those with advanced degrees in the general sample correctly identified credit bureaus as record-keeping agencies, only 20 percent of that group in the problem account sample correctly identified this function.

Correct perception of the function of the credit bureau rose with the income level of the problem account. Again, an interesting exception was the highest income group, in which only 11 percent identified credit bureaus correctly. As in the case of the general sample (Table 2), perceptions about credit bureaus did not seem to be related to occupation.

To summarize, consumers' knowledge of the role of the credit bureau in the credit granting process is limited. Since the majority of consumers believe that credit bureaus act as credit rating agencies, it is not surprising that many consumers may feel that restrictions should be placed on the information credit bureaus maintain.

Table 6: Distribution of Perceptions About Credit Bureaus by Selected Demographic Characteristics: Consumers with Problem Bankcard Accounts

| Education         | N   | Percent of sample | a)Government agency | b)Collection agency | c)Record keeping agency | d)Credit rating agency | No answer |
|-------------------|-----|-------------------|---------------------|---------------------|-------------------------|------------------------|-----------|
| Grade school      | 4   | 4%                | 25%                 | 25%                 | 25%                     | 25%                    | *         |
| Some high school  | 8   | 7                 | *                   | 13                  | 25                      | 50                     | 12        |
| High school       | 21  | 19                | *                   | 4                   | 48                      | 48                     | *         |
| Some college      | 37  | 33                | 3                   | *                   | 54                      | 43                     | *         |
| Undergrad degree  | 14  | 12                | *                   | *                   | 50                      | 50                     | *         |
| Postgrad          | 13  | 12                | *                   | *                   | 54                      | 46                     | *         |
| Advanced degree   | 15  | 13                | *                   | 13                  | 20                      | 67                     | *         |
| All               | 112 | 100%              | 2%                  | 5%                  | 44%                     | 48%                    | 1%        |
| <u>Income</u>     |     |                   |                     |                     |                         |                        |           |
| Under \$5000      | 5   | 5%                | 20%                 | 20%                 | *                       | 60%                    | *         |
| \$5001-7500       | 6   | 5                 | *                   | 17                  | 17                      | 66                     | *         |
| \$7501-10,000     | 7   | 6                 | *                   | *                   | 29                      | 57                     | 14        |
| \$10,001-15,000   | 17  | 15                | *                   | 6                   | 41                      | 53                     | *         |
| \$15,001-20,000   | 27  | 24                | *                   | 4                   | 48                      | 48                     | *         |
| \$20,001-25,000   | 16  | 14                | *                   | 6                   | 75                      | 19                     | *         |
| \$25,001-30,000   | 12  | 11                | *                   | *                   | 50                      | 50                     | *         |
| \$30,001-40,000   | 11  | 10                | 9                   | *                   | 64                      | 27                     | *         |
| \$40,001 or more  | 9   | 8                 | *                   | *                   | 11                      | 89                     | *         |
| No answer         | 2   | 2                 | *                   | *                   | 50                      | 50                     | *         |
| All               | 112 | 100%              | 2%                  | 5%                  | 44%                     | 48%                    | 1%        |
| <u>Occupation</u> |     |                   |                     |                     |                         |                        |           |
| Professional      | 17  | 15%               | *                   | 6%                  | 18%                     | 76%                    | *         |
| Technical         | 6   | 5                 | *                   | *                   | 17                      | 83                     | *         |
| Super-Mgr.        | 21  | 19                | *                   | 5                   | 71                      | 24                     | *         |
| Clerk             | 25  | 22                | 4                   | 4                   | 60                      | 32                     | *         |
| Craftsman         | 18  | 16                | *                   | 11                  | 39                      | 50                     | *         |
| Service           | 9   | 8                 | *                   | *                   | 44                      | 44                     | 12        |
| Unskilled         | 10  | 9                 | *                   | *                   | 30                      | 70                     | *         |
| Students          | 5   | 5                 | 20                  | *                   | 40                      | 40                     | *         |
| No answer         | 1   | 1                 | *                   | *                   | *                       | 100                    | *         |
| All               | 112 | 100%              | 2%                  | 5%                  | 44%                     | 48%                    | 1%        |

\*less than .5%

Source: Credit Research Center, Purdue University. California Bank Card Study.

## II. Consumers' Views on Information Held by Credit Bureaus

To determine what types of information maintained by credit bureaus were acceptable to consumers, California bankcard holders were asked to consider the kind of information they thought credit bureaus maintained about consumers (question 33, Appendix A) and also what types of information should be permitted. Table 7 shows a comparison of the distributions of the types of data consumers thought were maintained for both the regular and the problem samples. Also included in the table are the types of data actually maintained by credit bureaus according to a report of the Privacy Protection Study Commission and a spokesman for the Credit Bureau of Lafayette, Indiana.

According to the report of the Privacy Protection Study Commission, "there is a consensus within the industry as to the categories of information on an individual a credit bureau should maintain and report." ([4], p. 56). There are five basic categories of information. The first category, identifying information, consists of the individual's full name, social security number, address, telephone number, and spouse's name. The second category of information is financial and employment status, including income, spouse's income, place, position, and tenure of employment, additional sources of income and income from former employment. Credit history is the third category of information stored by credit bureaus. Data collected include types of credit previously obtained, names of previous credit grantors, extent of previous credit, and complete payment history. Also, part of credit bureau files are records of existing lines of credit, payment patterns and outstanding obligations owed to participating creditors. The last category of information maintained

Table 7: Distribution of Types of Data Consumers Believe are Maintained and Types of Data Consumers Feel Should be Maintained by Credit Bureaus for General Credit Card Account Sample and Problem Credit Card Account Sample.

| Data                                        | Information is Maintained |                  | Information that Should be Permitted |                  | Privacy Protection Commission Study of Credit Bureau Records data maintained | Credit Bureau of Lafayette, IN |
|---------------------------------------------|---------------------------|------------------|--------------------------------------|------------------|------------------------------------------------------------------------------|--------------------------------|
|                                             | Regular accounts          | Problem accounts | Regular accounts                     | Problem accounts |                                                                              |                                |
| Records of bill payment promptness          | 95%                       | 96%              | 90%                                  | 81%              | Yes                                                                          | Yes                            |
| Gossip and other opinion information        | 26                        | 25               | 2                                    | 2                | No                                                                           | No                             |
| Past personal bankruptcies                  | 85                        | 82               | 74                                   | 65               | Yes                                                                          | Yes                            |
| Balances in savings and checking accts.     | 35                        | 24               | 16                                   | 11               | b/                                                                           | b/                             |
| Information about moral behavior and habits | 30                        | 18               | 6                                    | 1                | No                                                                           | No                             |
| Records of Assets                           | 41                        | 34               | 20                                   | 17               | Yes <sup>c/</sup>                                                            | No <sup>c/</sup>               |
| Social security number                      | 83                        | 84%              | 66%                                  | 64%              | Yes                                                                          | No <sup>d/</sup>               |

a/ Weighted average of two samples for each response.

b/ Balances are not maintained, but the existence of these accounts may be recorded in credit bureau files.

c/ Some credit bureaus maintain records of arrests, some maintain records of convictions.

d/ Social security number is included in some of the Lafayette credit bureau records, but is used only as a final check in the automated reporting procedure.

Source: Credit Research Center., Purdue University. California Bank Card Study.

by credit bureaus is the information of public record, such as arrest and conviction records, bankruptcies, tax liens, and law suits. The credit bureau also lists bureau subscribers who have previously asked for a credit report on the individual.

The keeping of records of promptness in paying bills was acceptable to nearly all respondents, at least 90 percent of both sample groups. As might be expected, consumers with problem accounts thought that these records should be maintained by credit bureaus slightly less frequently than other consumers. This response reflects the desire of persons with problem credit histories to protect themselves from being refused credit because of past difficulties. The same reluctance to allow damaging information to be recorded appears in the responses to the maintenance of records of past personal bankruptcies. Again, most respondents knew that such information was recorded by credit reporting agencies and believed that it was appropriate that this type of information be maintained. Eighty-five percent of the general sample and 75 percent of the problem sample agreed with the practice.

Two controversial types of information about consumers not collected or maintained by credit bureaus are gossip and information about consumers' moral behavior. Opinion information about individuals is typically obtained only for specific investigative consumer reports, such as those for insurance companies [2]. Consumers were confused between the functions of investigative reporting and credit reporting since nearly 30 percent believed that credit bureaus do maintain opinion information. Further, there appears to be no consistent relationship between income, occupation or education and the types of information consumers felt should be recorded by credit bureaus for either the general sample or the problem sample.

Another indication of consumers' attitudes about the information credit bureaus keep is their willingness to have credit-grantors check their credit records (Table 8). As might be expected, more respondents in the general sample (91 percent) were willing to have their credit bureau records supplied to creditors than those from the problem sample (only 76 percent). This discrepancy can again be attributed to the desire of the consumers who have had problems making payments on credit balances to protect themselves from a possible refusal of credit by some other credit grantor in the future.

Table 8: Willingness to Allow Creditors to Check Credit Bureau Records

| Willing    | Number of accounts |                | Percent of sample |                |
|------------|--------------------|----------------|-------------------|----------------|
|            | Regular accts.     | Problem accts. | Regular accts.    | Problem accts. |
| Yes        | 687                | 85             | 91%               | 76%            |
| No         | 36                 | 19             | 5                 | 17             |
| Dor't Know | 20                 | 6              | 3                 | 5              |
| No Answer  | 5                  | 2              | 1                 | 2              |
| All        | 748                | 112            | 100               | 100 %          |

Source: Credit Research Center, Purdue University. California Bank Card Study.

The survey also asked consumers to give reasons for their unwillingness to allow credit-grantors access to credit bureau records. Only four percent of the regular sample and 12 percent of the problem sample replied. Of the reasons given for reluctance to allow credit-grantors examination of credit reports, ten percent of the problem respondents answered that they felt credit record information was unreliable or out of date. The Fair Credit Reporting Act requires that credit bureaus have "reasonable procedures" to insure that the information they report to their subscribers is accurate [5]. Most credit bureaus update files by contacting credit-grantors, other credit bureaus, employers, landlords, and credit references supplied on the individuals' application for credit. If the individual reviews his credit record, he may submit changes or additions, in most cases. Further, credit bureaus are responsible for purging records of information older than seven years (14 years for bankruptcy records) under the provisions of the Fair Credit Reporting Act. In addition, some state governments further limit some types of adverse information that can be maintained or reported by credit bureaus. The extent of adherence to these regulations is not known, but it is clear that some consumers are not aware of these limits on credit bureau information.

Overall, bank credit card users accepted the types of information generally maintained by credit bureaus as necessary to the credit-granting process. Persons who had accumulated bad credit records showed greater reluctance to expose these records to credit-grantors, as would be expected. However, the majority of consumers with problem accounts felt these reports were necessary to the credit-granting process and should be maintained by credit bureaus.

### III. Conclusions

In summary, consumers do not really understand the role of credit bureaus as information intermediaries in the credit-granting process. Consumers also are not well-informed about the information that credit bureaus maintain, but do not seem to object to the types of information that are actually kept in credit bureau files. Because this information assists credit grantors in making good credit decisions, credit grantors are willing to pay for the information. Good credit decisions mean that credit-grantors are better able to extend credit to consumers who can successfully repay and refuse credit to those who cannot. The better firms are at making this distinction, the fewer problems will be observed relating to overextension, debt collection, and other such problems that concern many governmental agencies.

Restricting the information that can be kept and therefore used by credit bureaus because of consumer pressure resulting from misperceptions will only make it more difficult for credit-grantors to make sound credit decisions. This state of affairs will likely result in an overall contraction of credit available at the margin. To the consumers affected, this is a cost, a reduction in their welfare and their wealth. Some consumers who should receive credit will be denied that credit. Others who should be denied credit will be granted credit and will suffer the consequences of non-payment. Both sets of consumers are injured. To impose such costs in order to prevent some of the information with which some harm might be associated entails a value judgment. Such a value judgment may prove to be inconsistent with reasonable measures of the damage done through information misuse, given that the legal system already provides a means, although perhaps imperfect, of redressing the damage done from misuse.

## APPENDIX A:

Question 31, 32, 33, 34, 16 of  
California Bankcard Study Questionnaire

16. Are there any practices of credit card issuers that you would like to see changed? ☐ Yes ☐ No

If yes, please explain \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

31. Please check the one of the following definitions that you think best describes a *Credit Bureau*.

- \_\_\_\_\_ a. A government agency that collects and maintains the credit records of individuals.  
\_\_\_\_\_ b. A private corporation that attempts to collect unpaid bills of consumers.  
\_\_\_\_\_ c. A private corporation that collects and maintains records showing how promptly consumers pay their bills.  
\_\_\_\_\_ d. A private corporation that rates consumers and determines whether or not they should receive credit.

32. Do you think you could go to a credit bureau to check on the contents of a file maintained about you?

☐ Yes

☐ No

☐ Don't Know

33. In the left hand column, please check one or more of the following items of information concerning consumers that you believe are now maintained in the records of a credit bureau.

Credit Bureaus NOW Have

- \_\_\_\_\_ a. Past records of how promptly bills have been paid  
\_\_\_\_\_ b. Gossip and other opinion information  
\_\_\_\_\_ c. Past personal bankruptcies  
\_\_\_\_\_ d. Balances in savings and checking accounts  
\_\_\_\_\_ e. Information about moral behavior and habits  
\_\_\_\_\_ f. Records of arrests  
\_\_\_\_\_ g. Social Security Number

Information credit bureaus should be permitted to have

- a. \_\_\_\_\_  
b. \_\_\_\_\_  
c. \_\_\_\_\_  
d. \_\_\_\_\_  
e. \_\_\_\_\_  
f. \_\_\_\_\_  
g. \_\_\_\_\_

Now please go back and check in the right hand column those items that you believe the credit bureau should be permitted to have about consumers.

34. If you applied for credit, would you be willing to let the creditor check the information about you on file with the credit bureau?

☐ Yes

☐ No

☐ Don't Know

35. Why not? \_\_\_\_\_  
\_\_\_\_\_

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